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TAGS: [ECON](#) [INV](#) [ENRG](#) [EIND](#) [IZ](#) [IR](#)  
SUBJECT: INDUSTRY MINISTER ON FOREIGN INVESTMENT STRATEGY  
AND IRANIAN INTEREST IN IRAQI PETROCHEMICALS

REF: A. BAGHDAD 3906  
[1](#)B. BAGHDAD OI 1/16/2009

Classified By: Economic Minister Counselor Marc Wall. Reasons 1.4 (b,d).  
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SUMMARY  
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[1](#)1. (C) At a January 14 meeting, Minister of Industry and Minerals (MIM) Fawzi Hariri provided Economic Minister Counselor and Coordinator for Economic Transition in Iraq Ambassador Marc Wall and Economic Counselor with an update into MIM's ongoing initiatives to enter into production-sharing joint venture (JV) agreements with foreign investors for the rehabilitation and management of state-owned factories. While he was upbeat on current rounds of joint venture negotiation with investors, he said talks over a 1 billion USD JV agreement between steel giant ArcelorMittal and the State Company for Steel and Iron in Basra were encountering some difficulties. Although Hariri said Iranian firms are "aggressively" pursuing investment in the state-owned Iraqi petrochemical sector, particularly the State Company for Petrochemical Industries in Basra, he is trying to steer these companies away from chemical-related production lines. He did, however, convey MIM's willingness to discuss a JV agreement with Dow Chemical for the Basra facility. Hariri outlined MIM's next phase of its SOE strategy, which he hopes will include a partial privatization of a pharmaceutical plant. According to Hariri, the economic crisis has helped attract more interest in investing in Iraq, with Arab gulf states particularly demonstrating greater appetite for Iraqi investment opportunities. End Summary.

EMERGING SUCCESS WITH JOINT VENTURE AGREEMENTS  
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[1](#)2. (SBU) On January 14, Minister of Industry and Minerals (MIM) Fawzi Hariri provided Economic Minister Counselor and Coordinator for Economic Transition in Iraq Ambassador Marc Wall with an update into MIM's ongoing initiatives to attract foreign investors to enter into joint venture (JV) production-sharing agreements with state-owned factories. While citing some challenges in working with the foreign investor consortia that took over management of the state-owned cement plants in Kirkuk and Anbar provinces in August 2008, he said all parties were "ironing them out." (Note: MIM signed JV production-sharing agreements, the first such deals, with both a Romanian and German investor consortia in April 2008. MIM officials report production increases of 20 percent at both plants, but lack of electricity supply still hinder larger production increases. End Note.)

[1](#)3. (SBU) Hariri was upbeat on current rounds of joint venture negotiation with foreign investors. He said a recently-concluded JV deal with Japanese firm Marubeni and an

Iraqi partner for BeiJi Fertilizer would increase production from 500,000 tons/year to 1.5 million tons/year, and praised the JV agreement between the Egyptian transformer manufacturer Al-Suweti group and Diyala Electric (Reftel A and Note: These deals only require formal signing of the contract to go into effect. End note). He said MIM was also "ready to move" on two JV deals with Kubaisa and Sinjar cement plants, in Anbar and Ninewa provinces, respectively (Reftel B and Note: The next day, Deputy Minister of Industry and Minerals told econoffs that MIM had successfully concluded talks for the plants. He said the consortium involved with the Kubaisa plant include Japanese firms Marubeni and Kawasaki, as well as American and Iraqi investor QMarubeni and Kawasaki, as well as American and Iraqi investor groups. The Sinjar deal is with a German-Kurd consortium. The Council of Ministers must now approve both agreements, after which, MIM and the consortia representatives formally sign the contract. End Note.)

#### INDUSTRY MINISTER NOT UPBEAT ON TALKS WITH ARCELORMITTAL

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14. (C) Hariri said negotiations for a 1 billion USD production-sharing, JV agreement between steel giant ArcelorMittal and the State Company for Steel and Iron in Basra continue, but without noticeable progress. According to Hariri, ArcelorMittal is now demanding "too many commitments" from MIM. "They keep moving the goal post," he said. For example, the company initially agreed to maintain the labor force of 6,000 workers for the duration of the agreement, but now preferred to gradually cut numbers, to begin within a few years. He also stated the company had first agreed to implement the investment over three years,

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but now preferred to draw it out over eight years. In addition, he expressed dissatisfaction with ArcelorMittal's terms that the GOI provide a guaranteed supply of gas to run a 400 MW power plant the company intends to build. According to Hariri, however, MIM does not have the authority to make this commitment. He expressed his opinion that the company is "playing for time" to see how the state of the global economy evolves, but said talks will nevertheless continue.

#### IRANIAN INTEREST IN PETROCHEMICAL INDUSTRIES

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15. (C) According to Hariri, Iranian firms are very interested in investing in the state-owned Iraqi petrochemical sector, particularly the State Company for Petrochemical Industries in Basra. Describing the Iranian bidders as "very aggressive," Hariri said he was "literally having to fend them off." According to Hariri, there are 64 petrochemical plants in Iran, 60 percent of which are state-owned, which produce 25 million tons/year of product. Hariri said he is trying to steer the Iranians away from chemical industrial production lines and towards the state-owned tire company in Najaf. He also discussed Iranian eagerness to do business in the Iraqi market writ large, stating Iranian businesses see Iraq as an extension of their domestic market. Hariri added he is trying to convince Iranian companies to set up production facilities here to help the labor market, rather than to just sell goods.

#### BUT HARIRI PREFERS DOW CHEMICAL

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6 (C) Hariri conveyed MIM's willingness to discuss a JV agreement between Dow Chemical and the State Company for Petrochemical Industries in Basra. Citing meetings between MIM officials and Dow last year, Hariri said the ministry had reached a "good understanding" with the company for the possibility of such a JV agreement. He explained, however, that Dow subsequently began pursuing a 12 billion USD petrochemical deal in Kuwait, diverting the company's attention from Iraq. Now that the Kuwait deal had fallen

through, Hariri said he wished to once again engage in talks with Dow to let them know "we are still open to them." He said Indian company Reliant was also exploring investment in the Basra petrochemical line.

#### "PARTIAL PRIVATIZATION"

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17. (C) While the production-sharing joint venture agreements with the SOEs do not involve sale of equity of the enterprise or ownership transfer of its assets, Hariri outlined MIM's "phased" strategy that would work towards privatization of certain SOEs. He said the JV agreements constitute the first "phase" of MIM's SOE strategy, explaining that the ministry was now conducting studies to enter the second "phase," which would involve partial sales of equity shares in SOEs. Stating, "We want to do one or two IPO's soon," Hariri explained the State Company for Pharmaceuticals in Samara was the leading candidate. He said MIM first needed to determine a share price attractive to all sides, to include the value of the land of the company. Operating within Company Law 21 of 1997 which governs mixed sector companies, Hariri explained, the GOI would not retain ownership of more than 24 percent. He added that the JV program would continue, even when such a partial privatization begins. In the future, Hariri said, MIM plans to consider full privatization of its QHariri said, MIM plans to consider full privatization of its SOEs.

#### PRIMARY CHALLENGES FOR STATE-OWNED ENTERPRISES

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18. (C) Hariri stated the two greatest challenges facing his ministry were its vastly oversized labor force and power generation challenges. He estimated MIM SOEs on average employ 100 percent more workers than are required, and, in some cases, 200 percent more than needed. Compounding the problem, he said, many of these workers are completely idle, given most factories only operate at one shift out of three. He explained the difficulties of balancing investor concerns of over-employment with the impact of job losses. Hariri stated lack of electricity supply was creating drags on production throughout MIM SOEs, complaining that he often must divert gas supplies from his factories to the Ministry of Electricity. On two occasions over the past four months, Hariri said, an order from "the Iraqi leadership" to transfer gas to the MoE forced him to entirely shut down one of his two fertilizer factories. He recounted a conversation with the MoE earlier in the day, when he was asked to divert

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additional gas to add 200 MW to the national grid. "Electricity is a vote-winner," he said.

#### ECONOMIC CRISIS MEANS MORE INTEREST IN IRAQ

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19. (SBU) According to Hariri, the economic crisis has helped attract more interest in investing in Iraq. He specifically said Gulf Cooperation Council (GCC) states are expressing greater appetite for Iraqi investment opportunities due to their weakened trust in global banking systems, estimating that Qatar and Kuwaiti investment groups lost 25-30 billion USD in the first week of the economic crisis. He said many GCC states are now investing in economies such as Sudan, indicating a new trend away from traditional markets. He added that UAE and Kuwaiti firms in particular were already investing heavily in the KRG.

